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Ms Anna Collyer
Chair, Energy Security Board

By email: info@esb.org.au

Dear Ms Collyer,

Capacity Mechanism Project High-level Design Paper

CSR Limited (CSR) appreciates the opportunity to respond to the ESB in response to the Capacity Mechanism Project High-Level Design Paper (Design Paper).

CSR is among Australia's most trusted and recognised brand names in providing building products for residential and commercial construction, with a portfolio of leading brands. We operate low-cost manufacturing facilities and a strong distribution network to service our customers across Australia and New Zealand. CSR is a wholesale Market Participant in both gas and electricity markets and has retail energy contracts for smaller sites.

The NEM can be viewed as one part of the process used for settling the differences in participant contract positions, as most buyers and sellers will have hedged positions with varying degrees of exposure to spot prices. Typical arrangements are through bilateral contracts, financial markets, or portfolio positions, with participants managing their risks and exposures in different ways. Introducing a capacity mechanism doesn't change this dynamic and is likely to lead to additional complexity and cost to customers.

The argument that a capacity mechanism will help reduce the risk of a disorderly transition hasn't been made. Providers of capacity already have signals/incentives to ensure their capacity is made available at certain times. Recent high price events would not be resolved by the introduction of a capacity mechanism as there isn't a lack of generation capacity, but rather a lack of availability and a lack of lower-cost fuel sources.

The price signals in the NEM should not be considered as the only signal for investment in generation. Many investment decisions have been influenced by other factors such as State and Federal policies, as well as participants own contract positions. There are many arrangements in place that will be impacted by the proposed changes.

An assessment needs to be made on the minimum regulatory change that can be introduced to ensure an orderly transition. If the solution is over-engineered this will increase costs to customers and may not guarantee the required investment. Any significant change to the way the market is structured is going to be a regulatory burden and has the potential to introduce unintended market outcomes – leading to further reforms and regulatory cost and increasing regulatory uncertainty in the market.

CSR has concerns with what has been proposed in the Design Paper in that the capacity mechanism needs to be

- operational in a relatively tight timeframe – there is a risk of implementing poor design
- straightforward and then refined over time – this is likely to lead to further regulatory uncertainty
- carefully designed to avoid increasing costs for the same level of service – this is inconsistent with the two dot points above.

Securing the additional capacity required to minimise a disorderly transition must be prioritised, rather than the rushed introduction of major changes in market design.



On the basis that a capacity mechanism is introduced:

- There are going to be errors in longer term forecasts that can't be avoided. The design should ensure these errors in forecasts do not result in additional costs to customers.
- Price settings between energy and capacity should be considered with a much tighter range on the energy price. The Market Price Cap must be adjusted down to avoid the potential for increased costs across the NEM. Careful consideration needs to be given to the pricing parameters to ensure there is still liquidity in the market; double-dipping is minimised; and risks to customers are managed.
- Monitoring of compliance is going to be burdensome and difficult.
- Customers need predictability of the cost that will be assigned.
- Loads that have a higher level of variability should face increased costs reflecting the increased capacity requirements of those loads.
- Socialised costs shouldn't result in retailers being double charged.
- Many of the questions raised in the Design Paper would result in AEMO taking on additional functions. Given the significant increases in AEMO's fees, consideration should be given to minimising the amount of additional workload that is placed on AEMO to ensure the fees do not continue to increase in the same manner.

CSR supports an approach that is transparent and simple to the extent practicable. If you would like to discuss this submission, please contact me at rflood@csr.com.au.

Your Sincerely,

Robbie Flood
Energy Manager